Incentive Marketing

INCORPORATING INCENTIVE TRAVEL

NOVEMBER 1982

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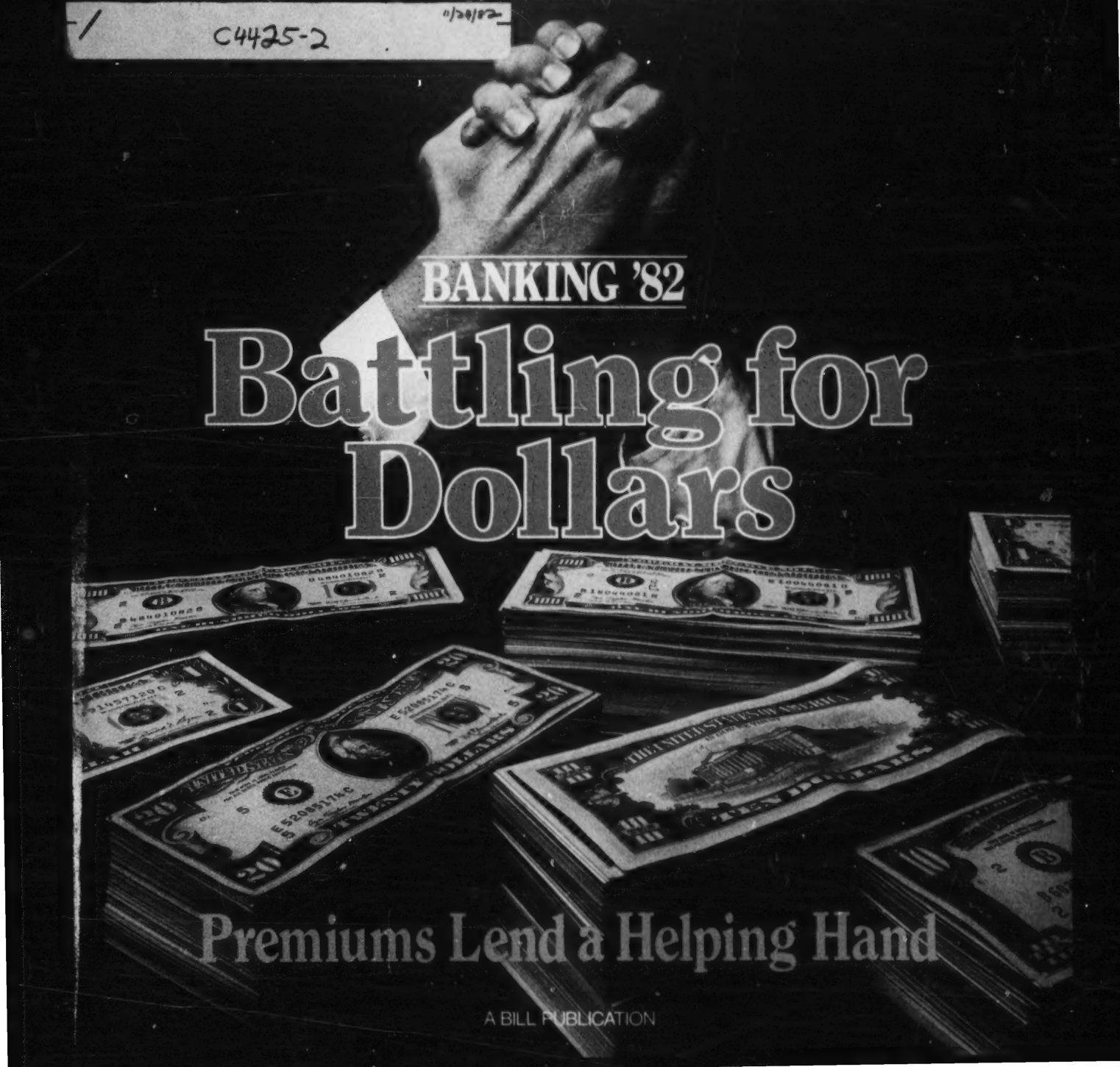


BANKING '82

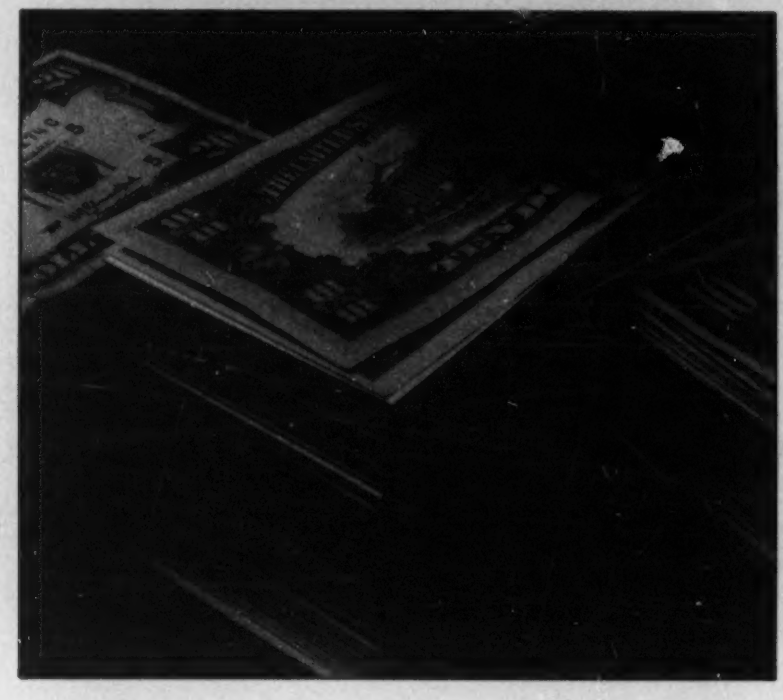
Battling for Dollars

Premiums Lend a Helping Hand

A BILL PUBLICATION

Incentive Marketing

November 1982



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78th Year
Volume 155
Number 5
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16 ***BANK MARKETING '82: BATTLING FOR DOLLARS—***
Consumers are sharper, the competition stiffer, and bankers are being forced to change or vanish with deregulation. A special IM survey covers the how's, why's, and how much'es of bank premium promotion.

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Premiums Lend a Helping Hand

Banking has certainly taken its lumps in the last few years, ranging from repeated attempts to outlaw one of its most effective marketing tools—another premium ban was recently attempted in New Jersey—to a ferocious competition for funds that has pitted them against people they never imagined could be anything other than good neighbors and customers.

"In the old days, people went to Agway to buy horse manure," one banker told IM, with perhaps a touch of bitterness. "Now they go there to invest in their money market fund."

The picture isn't going to get any simpler, judging from a recent survey on "Consumer Financial Behavior in the 1980s." Opinion Research Corp., Princeton NJ, finds consumers are now cherry-picking financial institutions like they do supermarkets, shopping for the best deals on specific services. According to ORC, three of five US households now use at least two financial institutions, and one-third use three or more.

"There's a clearcut message here for the banking industry," says Sandra Spies, vp-research. "Just as the brand name manufacturer can no longer depend on consumer habit or loyalty to carry him through soaring retail pricing, so should bankers realize they are dealing with these same consumers: they want more bang for the buck, and their continued patronage will have to be won anew."

Yet, says ORC, unlike the packaged goods industry, banking is hamstrung by regulations and slow to change. "Bankers will have to be more creative, far more imaginative in the months ahead," says Ms. Spies.

"The banking industry has changed overnight, but bankers haven't," agrees Samuel P. Fritsky, marketing director at Citadel Industries, a New Jersey supplier of bank promotions.

Which, he points out, doesn't mean bank marketers are more lethargic than any other group of American businessmen. "Auto executives didn't change when their market changed, steel executives and airline executives didn't change, and many others. Why do we expect bankers to change so quickly?"

Hovering over the banking business is the promise—or threat—of total deregulation, when bankers will be free to engage in all-out rate competition—what other industries would call price wars.

What will happen to premium promotions when banks are totally deregulated, sometime around 1986? From a special Incentive Marketing survey, it seems pretty clear nobody really knows what to

BANKING '82

Battling for Dollars

expect. We asked bankers how they thought deregulation would affect premium promotion, and came up with three almost equal piles of votes: 27 percent predicting premiums will be more important in a deregulated market, 34 percent saying they will be about as important as they are today, and 37 percent saying they will be less important. Just two percent of our survey group had no opinion.

Of note is that marketing executives at savings & loan institutions—traditionally the heaviest users of premiums—were most hopeful their role would be reduced. 40 percent of the S&L executives responding looked for premiums to play a smaller role, and just 19 percent said they would be more important. Marketplace realities may not allow them the luxury of fulfilling this wish, but it's pretty clear where their sympathies are.

What emerges from IM's special survey, done in the third quarter of 1982, is that marketing executives are taking a conservative approach to premium use. Growth, these bankers tell us, will be more or less in line with the pattern of the last two years.

Incentive Marketing estimates financial institutions spent a record $218 million on premium promotions in 1981, about eight percent more than a year earlier. This special survey group would indicate we could look for another six to eight percent increase in 1982 and 1983.

Not dramatic growth, but $218 million is not pocket change, and represents a substantial investment by those institutions that do use premiums. SIMSA, the Savings Institutions Marketing Society of America, finds premiums account for 10 to 25 percent of the marketing budget at those institutions using them. The highest percentages are most common in middle-range institutions, where competition is fiercest, with very small and very large institutions likely to spend a smaller percentage of the budget.

SIMSA, which represents 4123 savings institutions, finds "a trend toward one-on-one marketing techniques like premiums, direct selling, and direct mail," citing, as the reason, "response to the increased competition for savings deposits from other financial institutions, especially money market funds."

The IM survey offers some insights into the nuts and bolts of premium promotion, the outlook for 1983, and the promotional differences between commercial banks and savings institutions. A mailing to selected IM subscribers at financial institutions drew 188 responses—95 commercial banks, 60 savings & loans, and 33 others, mostly credit unions.

The IM survey draws heavily on large institutions, so the budget numbers reported are probably above the national averages. SIMSA, for example, reports 30 percent of its members have assets of $100 million or more; the American Banking Association reports just 10 percent of its member banks are that large. Virtually all of the institutions in the IM sur-

vey reported assets of $100 million or more.

Savings institutions continue to be the big spenders. These respondents spend an average $243,000 a year on premiums, against $95,000 for the reporting banks. The medians were considerably less—$100,000 for S&Ls, and $25,000 for banks.

Nearly three-quarters of the survey respondents gave budget figures for 1982, and about two-thirds gave forecasts for 1983. The picture is of a conservative spending increase, with 39 percent of the total group forecasting an increase, 12 percent planning to spend the same, and 12 percent to cut back. But many of the increases were small, and the overall picture is a dollar increase in the six to eight percent range.

Reinforcement for that comes from a question asking what types of services they promoted with premiums in 1982, and plan to promote in 1983. In general, this group looks to cut back, with one exception: using premiums to promote consumer loans. This probably reflects a hoped-for improvement in the national economy, rather than any new interest in premium activity here.

Here are the services these respondents promoted with premiums in 1982, and plan to promote in 1983:

	1982	*1983*
Passbook Savings	48%	39%
Savings Certificates	63%	54%
Checking/NOW Accounts	52%	44%
Christmas Clubs	31%	25%
IRA/Keogh Plans	56%	45%
Branch Openings	31%	28%
Consumer Loans	11%	16%
ATM Services	31%	29%
Other Services	10%	12%

In general, S&Ls were more aggressive in promoting Savings Certificates, Checking/NOW accounts, IRAs, Branch Openings, and Consumer Loans. Commercial bankers were more active in only one area: Automatic Teller Machines, with 40 percent reporting premium activity here.

Virtually all the respondents used some sort of premium promotion in 1982, but the far-and-away favorite was the promotion to obtain new deposits, used by 89 percent of the commercial banks and 95 percent of the S&Ls.

More specifically, we asked about the type of promotions they ran. 78 percent reported using a direct premium, defined as an item given free to a customer making a deposit. Self-liquidating premiums were used by 52 percent, traffic-builders & giveaways by 42 percent, sweepstakes by 21 percent, and continuities by 11 percent.

But the meat of the business is the deposit-builder, and we looked at this more closely. Differences are noted between banks and savings institutions: S&Ls ran more promotions, ran them longer and with bigger budgets, and were less squeamish about how premiums reflect on their image.

Two promotions a year was the average for both groups, but savings institutions were inclined to run more. Here is the number of deposit-building promotions each type of institution reported using in 1982:

One-fifth of households have gotten bank premium: ORC study

How do consumers feel about bank premiums? One answer comes from a new survey of "Consumer Financial Behavior in the 1980s," published recently by Opinion Research Corp., Princeton NJ. ORC finds consumers generally favorable toward premium offers, and the better the consumer demographics, the more favorable their attitude.

ORC surveyed 1000 households to develop a nationally projectable sample of what consumers are doing with their money.

According to ORC, about one household in five—nearly 16 million—have responded to a premium offer from a financial institution.

"About as many people say they have at some time opened a new bank account (12 percent) as say they have deposited the maximum amount required in an existing account (10 percent) to take advantage of a free gift offer," the study finds.

75 percent of the survey says it has never responded to a bank premium offer, and 37 percent classify themselves as "not at all likely" to respond.

ORC tested the idea of a free premium for a $500 deposit and reports "a sizeable positive response. Three people in 10 say they would be very likely or fairly likely to respond to such an offer. About one in eight is in the most positive category." Those most likely to respond: household incomes over $25,000, two or more income earners in a family, some college education, and living in northeast and north central states.

The money, consumers say, is truly new money, and not funds jumping from one institution to another in response to premium offers. "Among those who have responded to these incentives, most say they do not withdraw funds from an existing account in order to deposit the necessary funds in an account to obtain the premium. These gift offers apparently are a source of new/additional funds for the banking institutions offering them," ORC concludes.

Details of the complete ORC study—priced at $2500—are available from: Opinion Research Corp., North Harrison St., Princeton NJ 08540 (609: 924-5900). ■

	Banks	*S&Ls*
1 Promotion	18%	16%
2	33%	33%
3	16%	7%
4	9%	28%
5 or More	9%	12%

S&Ls were more likely to let their promotions run on. Banks reported a mean promotion length of eight weeks, with almost as many votes for six weeks. For S&Ls, the mean was 12 weeks, and the most mentioned lengths were 12 weeks and four weeks.

Both segments report a mean planning period of six weeks, but S&Ls were almost as inclined to give it eight weeks.

A big jump in the required minimum deposit since our last bank survey, in 1980. At that time, the most common figures were $250 and $300. This year, it's $500 in every category: most mentions, mean, and average for banks and savings institutions. Since the premium spending limits are the same for $500 and $250, this can only be an attempt to build a little breathing room into the cost of deposits. This $500 was the minimum required deposit to participate in a promotion, whether free or liquidated. Another notable trend lately has been the increased requirement for a free premium.

These respondents report deposits smaller than earlier surveys: an average of $3586, against the $5800 reported a few years ago.

There are three basic formats a promotion can use: it can offer a single premium, a small group of items built on a theme, or it can take the department store approach and put out a potpourri of merchandise, hoping to strike every depositor's fancy.

Commercial banks again took the conservative route, favoring the single premium (39 percent) over the theme (44 percent) and the potpourri. For savings institutions, an almost mirror image: the potpourri was the most favored, used by 47 percent, followed by the theme promotion (40 percent) and the single premium (12 percent).

The ultimate single premium is cash—and 30 percent of our survey group reports offering a "cash premium for deposits" in 1982.

"All the financial institutions in my area (south Florida) are running variations of the same pro-

What was the most successful premium you used in 1982?

14K Gold
Dishes
Timex watches
Crystal continuity program
Hoover electric broom
Custom-made plaques of local historical scenes
Cash
Cookware
Silver trays
Cash
Clocks
No outstanding item
Electric fan
Radio
Fans
Calculators & blankets
Small appliances, blankets, fans, cutlery, tools, glassware
5-speed mixer
Decorative china
Solid brassware
Pots and pans
Coffee brewer
GE security light
Stuffed animals
12-inch, 3-speed fan
Kitchen utensils
Corning cookware
GE color TV
Glassware
Crock Pot
Cosco step stool
Unisonic calculator/pen
Blankets
Black & Decker Dustbuster
Weed Eater
Cookbook
Luggage
Oscillating fans
Stoneware/china
King Louie jackets
Clock-radio
Wedgwood crystal
Cash and calculators
Nursery plants, rose bushes
Restaurant dinner promotion
Broiler ovens, Dustbusters
Crystal
Lead crystal stemware
West Bend Country Inn collection of pots and pans
Ice cream
Stuffed doll
Stoneware
Cash
Nylon luggage
Calculators
Totes umbrellas and carry-ons
Regal cookware
Belt buckles--but Corning Ware coming up fast
Mirrors, screwdrivers
Coffee mill, salt & pepper set
Kodak Partytime camera
Stadium blanket
Trays
Stainless silverware
Fine china
Luggage
Presto fresh air machine
Steaks
Brass and copper
Luggage
Tableware and cookware
Crystal
Cash
Small appliances
Rand McNally books
Gold-filled jewelry
Custom-designed beach towels
Cash
Rain gauges
Potpourri of merchandise
Silverplate
PCA portrait promotion
Calculator
French White Corning Ware
Pewter holloware
Crystal
French D'Arques crystal
Pfaltzgraff
Stadium blanket
Rose bushes
Crystal
China
Buck knives
Bulova travel clocks
Quartz digital clocks
Cash
Tie-shirt combination
Coin banks
Baseball hats & t-shirts
Pick-a-gift program
Tuffy Tiger stuffed animal

gram," writes one executive. "Now our customers want cash; they claim they have everything else."

More than half of this group—53 percent—run promotions in which some items are free and others are liquidated. A surprising 29 percent claim they can still put together a promotion in which all of the premiums are free for deposits, and 10 percent run programs in which all of the premiums are liquidated.

We asked about prices consumers pay when an item is liquidated, and got answers ranging from $1 to $229.95. But most fell under $25.

Under the regulations set down by the Depository Institutions Deregulation Committee—DIDC—institutions are given limits on what they can spend on premiums. For deposits under $5000, they are allowed to spend up to $10 for the premium, shipping & handling. For deposits over $5000, the limit is $20.

These executives stay close to the limit. For deposits under $5000, they report a mean premium cost of $8. Over $5000, their mean premium cost is $17.50. In both cases, a number of unusually low prices were cited, distorting the responses. And, a number of institutions indicated using the same premiums for deposits under and over $5000.

No big surprises in premium selection, with heavy voting for the old reliables: china, glassware, luggage, pots and pans, blankets, appliances, clocks, radios.

We asked buyers to rate eight qualities on a scale from 1 to 5. Most important were the price of the item (cited by 77 percent) and the national brand name (65 percent). Decidedly not important were an American-made premium (six percent), a supplier who will drop ship (of value to 26 percent), and a supplier recommendation, valued by just 16 percent.

A track record at this particular institution was important to 45 percent, not important to 55 percent. A track record as a bank premium was important to 55 percent, not as important to 45 percent. New items were important to 55 percent of our group.

The items, whatever they are, are cheap compared with the cost of telling the world about them, said one survey comment. Typically, this group uses a fou -part media plan: newspapers (used by 85 percent), branch displays (77 percent), direct mail (69 percent), and broadcast advertising (63 percent).

Available, but seldom used: direct mail to non-customers (24 percent) and outdoor advertising (11 percent). Six percent report other media, typically handbills distributed at street corners or shopping malls.

Finally, the big day is here: the premiums selected, the theme set, ads run, the doors open, and consumers come in. And here, say respondents, is where the grief really starts: having to deal with premium suppliers and, to a lesser degree, consumers.

When we asked the open-end question, "What are your biggest problems in developing and running premium promotions," the comments came in several areas:

Premium Suppliers: Delivery, shipping, time, return privileges, support materials, account servicing.

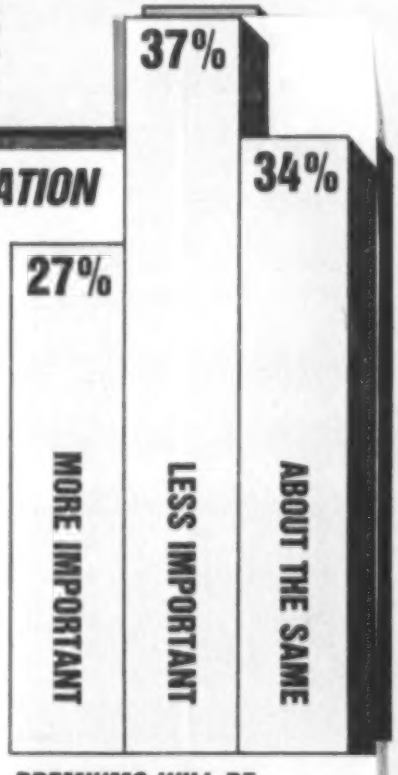
Consumers: Looking to split accounts and get more gifts, and to get gifts just for leaving their money in the institution when a promotion starts.

Administration: Inventory control, getting premiums to the branches, getting employees enthused about the promotion, getting employees to spend time on it without hurting their other duties, paperwork in general.

Premiums, these bankers tell us, are a hassle, but they have one saving grace: they can bring in dollars. "A properly run premium program can be beneficial to the consumer and the institution," writes one Texas banker. "The major problem of most programs is staying within compliance guidelines. We'd prefer equal opportunity for everyone through deregulation." ■

HOW WILL DEREGULATION AFFECT PREMIUM PROMOTION?

Marketing executives at savings institutions—traditionally the heaviest users of premiums—were most hopeful their role would be reduced when banking is deregulated.



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Incentive Marketing

INCORPORATING INCENTIVE TRAVEL

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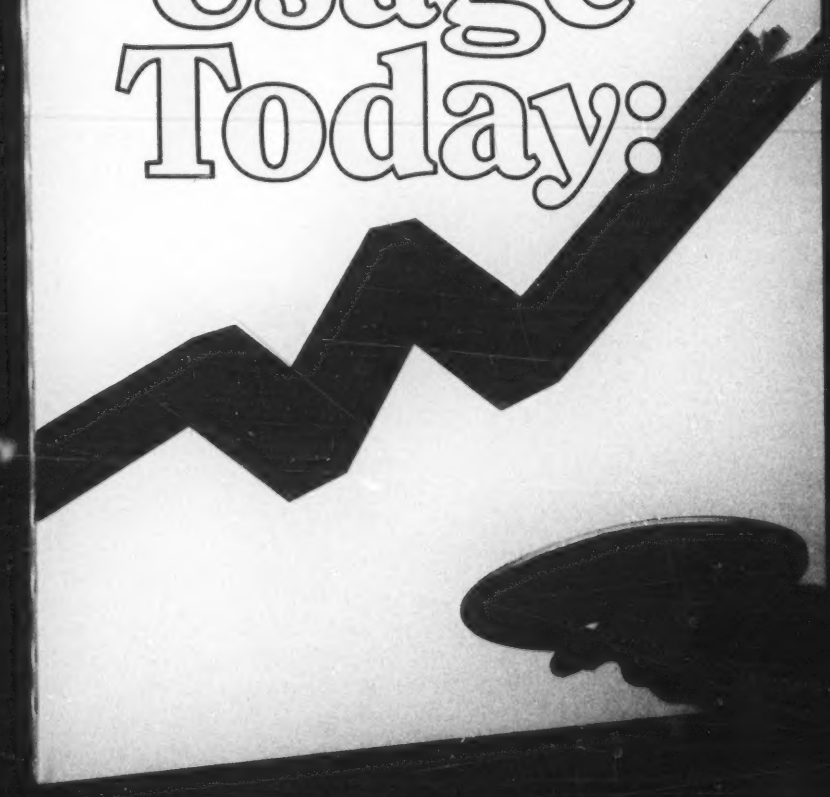


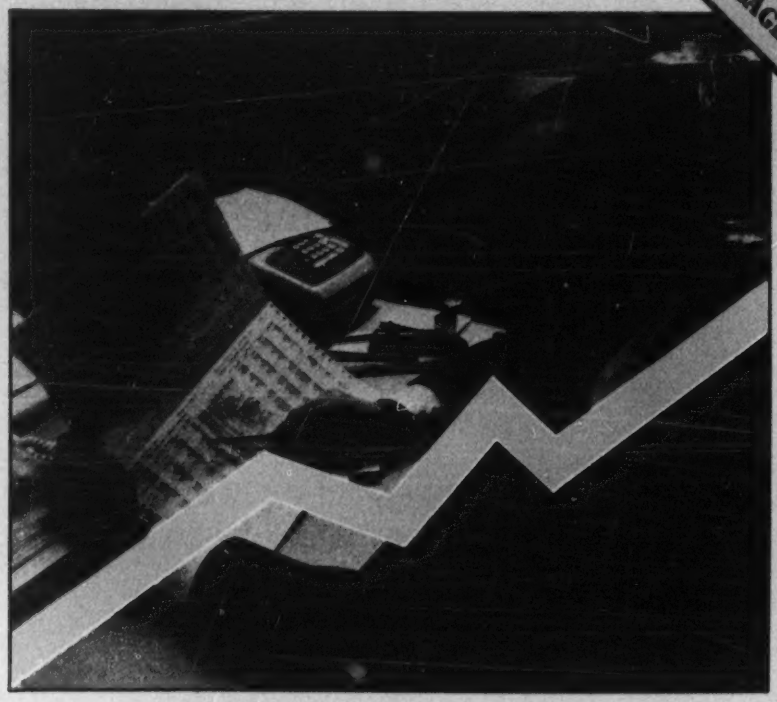
A Picture of the Field

A BILL PUBLICATION

Incentive Marketing

FACTS ISSUE SURVEY OF INCENTIVE USAGE

December 1982



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92 ***GLOSSARY OF INCENTIVE TERMS.***

Bill publications and divisions: Incentive Marketing, Incentive Marketing Facts, Industrial Chemical News, Institutional Distribution, Jobber/Retailer, Modern Tire Dealer, Plastics Technology, Restaurant Business, Restaurant Design, Rubber World, Sales & Marketing Management, Successful Meetings, BillCom Books & Directories, Integrated Food Services, Market Statistics Inc., Sales Builders, SM Data Bank & Seminars.

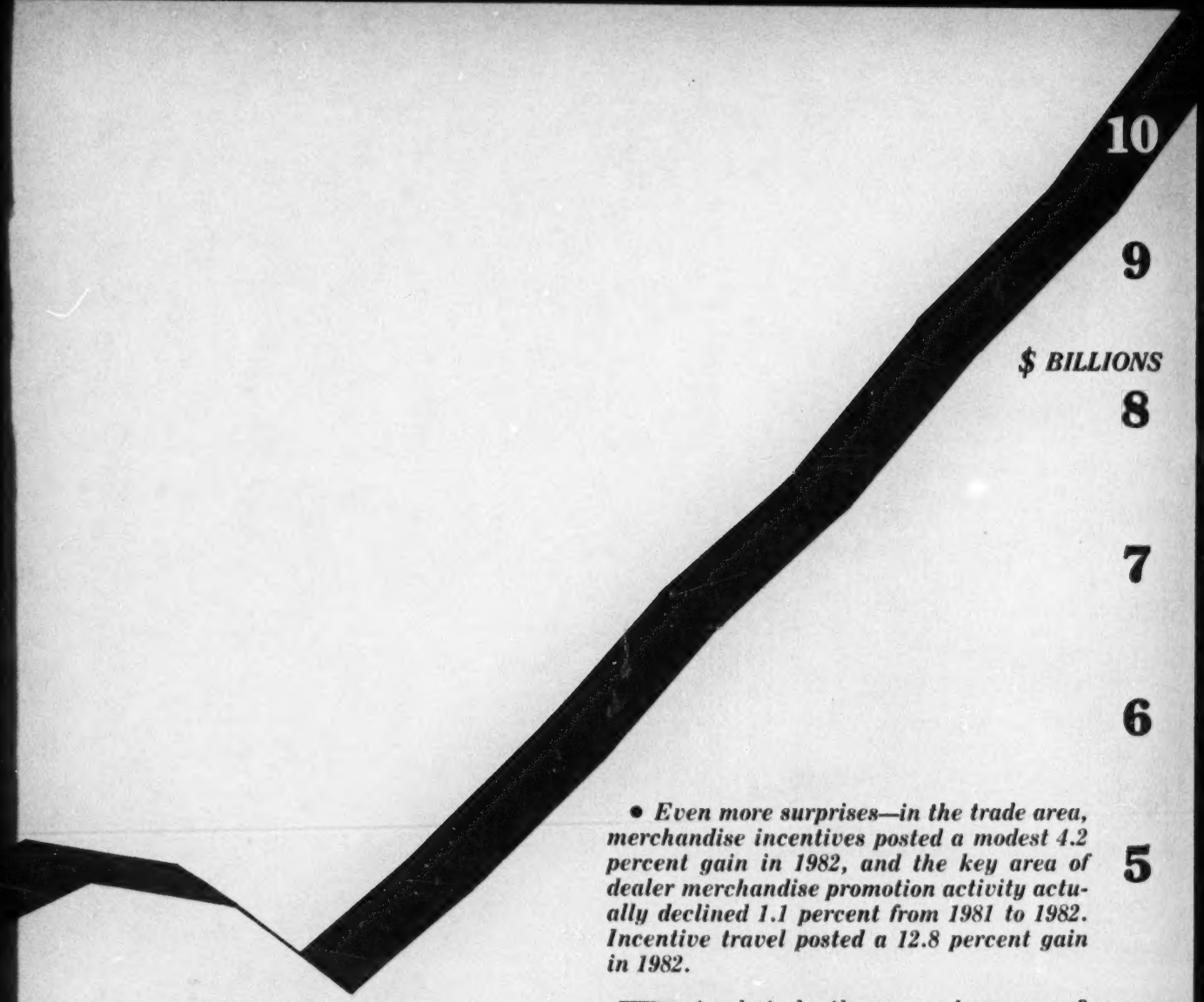
Census of Usage: 1981/82

A record dollar volume in both years, but it was a mixed picture. While two-thirds of all industry groups reported above-average spending gains, some key users reported little or no growth. Spending increased 8.3% in 1981, and another 9.1% in 1982, bringing the field past the $10-billion mark.

Recession slowed the growth of incentive activity in 1981, and the idea of an economic recovery in early or middle 1982 evidently found few believers among incentive users. Nevertheless, American business managed to post spending incentives in both years, bringing all but one segment of the incentive field to a record dollar volume in 1982.

The record for individual industries was less consistent. There were some big gainers—double-digit spending increases posted by Toiletries, Insurance, Housewares, and Office Equipment—and some big losers—spending actually declined in the Autos & Trucks, Public Utilities, and Petroleum Products categories, and was about even for several other industries.

Incentive Marketing's 15th annual Census of Usage, covering incentive activity in 1981 and initial reports for 1982, finds these points:



• *A record dollar volume in both years—but much of it attributable to inflation. Spending increased 8.3 percent in 1981, bringing the field to a record $9,361,510,000. Encouraging, but short of the 12 to 13 percent gain incentive users had forecast a year earlier.*

• *Incentive users were slightly more optimistic about 1982, when we surveyed them in the first half of the year. They anticipated a 9.1 percent spending increase, which would produce a total dollar volume of $10,213,451,000.*

• *Surprising trends in where gains are being made. Users report they anticipate a 12.1 percent gain in manufacturer-sponsored consumer promotions in 1982, against a 6.6 percent gain in trade incentive activity.*

• *Even more surprises—in the trade area, merchandise incentives posted a modest 4.2 percent gain in 1982, and the key area of dealer merchandise promotion activity actually declined 1.1 percent from 1981 to 1982. Incentive travel posted a 12.8 percent gain in 1982.*

But what do these numbers mean? Clearly, to a supplier of merchandise or travel, they define a "market." Yet, to the marketer promoting his product or service through incentives, they are just numbers. The real meaning lies in the effectiveness incentives provide in moving those commodities to the consumer. And there we have ample evidence that incentives are doing the job.

If the total universe of the economy—and hence each user's share of it—shrinks, his spending for incentives may necessarily also contract. But, because he is not spending more, he does not blame the tools that work; he is getting his money's worth. That is where we seem to be today, based on all the IM survey evidence.

By the principal measurements covered in the survey, trade incentives are performing

Trade incentives are performing at least as well as a year ago, and a bit better in some cases. Sales increases are reported up, and some participation levels have improved.

at least as well as a year ago—a bit better in some cases. The FACTS figures on sales performance, participation, incentive unit cost and cost-effectiveness are all derived from year-to-year comparisons by the same users—and thus minimize possible distortions.

The average sales increases achieved are up in all cases. Merchandise sales force programs are yielding gains of 16 percent, compared with 14 percent last year; for travel, the average remains at 16 percent for both years. On the dealer level, merchandise offerings are bringing sales increases of 15 percent now, versus 11 percent last year; dealer travel shows a 16 percent average rise, compared with an earlier 13 percent.

Some users are having better fortunes than others, as indicated by the fact that the median percentage gains have changed much less than the arithmetic averages. Sales incentive travel now yields a median 12 percent to last year's 10 percent. The other three trade incentive categories have risen from 10 percent to an 11 percent median.

In the matter of participation—percentage of eligible persons qualifying for awards—there has been a general increase, from 36 percent to 39 percent for sales force merchandise programs and 29 percent to 31 percent for dealer merchandise promotions. Dealer travel awards are now being earned by 25 percent, compared with 24 percent. Only in sales incentive travel has there been a slight slippage in winners—from 28 percent to 27 percent average.

Although the unit costs of their incentives have increased, the users find that the bottom line—the percentage of incremental sales spent for the programs—has held up well.

Merchandise programs for both salespeople and dealers are unchanged in the portion of added sales spent for them. For the sales force, both years show an average of 11 percent, with a median of 6 percent. In dealer promotion, the respective figures are 8 percent and 5 percent. Sales force travel rose in average cost from 10 percent to 11 percent—but the median fell from 7 percent to 6 percent. Only in dealer travel was there an increase in median cost, from 5 percent to 6 percent—but the average was unchanged at 9 percent.

The survey did not provide similar comparisons for consumer promotions, but users' confidence in most of the techniques can be deduced from the fact that they forecast a rather large increase in spending this year for five of the eight types of promotion listed. Only direct premiums (up 8.9 percent), sweepstakes & contests (6 percent) and trading stamps (8.7 percent) are expected to increase less in 1982 than the average 9.1 percent for the entire field.

Leading the rise in consumer promotion, the users told IM, are free mail-in offers, expected to increase by 18.4 percent over the 1981 total. Self-liquidators are predicted rising 14.3 percent, and factory-packs are anticipated to cost users 15.1 percent more than they spent for them a year ago.

Overall, the new forecast for this year shows a 12.1 percent advance in the six categories of manufacturer promotion to the consumer. This in itself was a bit of a surprise. A year ago, the survey indicated a much greater growth in trade incentives (17.9 percent) than for consumer promotion (5 percent) in 1981. The '82 estimates given then showed a more even split, but with consumer spending lagging a bit.

It was noted in the IM survey report that this was a familiar historical pattern—more emphasis on trade incentives, especially for salespeople, during a recession. While the total estimate of spending this year does not reflect great confidence in a recovery, it may be that many users did indeed anticipate improvement—and began to rearrange their promotional plans to woo the consumer more in the second half of this year.

Whatever the reasoning, these marketers overall now seem to be spending quite a bit more on consumer promotion (up 12.1 percent) than on sales force (8.5 percent) or dealer (4 percent) incentives.

In the trade groups, travel appears to be substantially stronger than merchandise this year, with a 12.8 percent

TOTAL DOLLAR VOLUME OF INCENTIVE USAGE

1982	$10,213,451,000
1981	$ 9,361,510,000
1980	$ 8,664,251,000
1979	$ 7,696,138,000
1978	$ 6,719,687,000
1977	$ 5,841,575,000
1976	$ 5,026,535,000
1975	$ 4,236,305,000
1974	$ 4,829,964,000
1973	$ 5,023,184,000
1972	$ 4,649,650,000
1971	$ 4,222,505,000
1970	$ 3,793,000,000
1969	$ 3,772,000,000

Source: IM survey 1969-1982

growth, while the tangibles are rising only 4.2 percent. In fact, merchandise promotions to dealers are the only category of promotion for this year showing a slight decline—down 1.1 percent.

Contrary to the picture for manufacturer promotion to the consumer, the retail segment of the field is coming in a bit weaker than previously forecast—although the trading stamp portion did a little better last year than had been expected.

A year ago the estimate of stamps in 1981 was only 2.8 percent ahead of '80—the final count showed a 5.5 percent growth. In non-stamp retail promotion, a year-ago forecast of 13.1 percent expansion turned out as 11.3 percent when the final 1981 estimates were in. For 1982, it now appears trading stamps will gain a bit more ground—up 8.7 percent—while other retail promotional spending will advance 10.4 percent.

In all, retail promotion this year is anticipated as rising 10 percent, to a total of more than $2-billion for the first time—$2,104,000,000. The stamp piece of the pie will be about $525,000,000, or just about a quarter of the whole.

The biggest segment of the field in 1981, by a good margin, was business gifts, which rose 18 percent, more than the 16.2 percent predicted earlier. But gifts are going to slow down this Christmas season, according to the users in the survey—with only an 8.8 percent expansion. That will bring this type of lar-

THE INCENTIVE FIELD AT A GLANCE

TYPE OF PROMOTION	ESTIMATE 1982	% CHANGE PRIOR YEAR	EXPENDITURES 1981	% CHANGE PRIOR YEAR	EXPENDITURES 1980
Sales Force Incentives					
Merchandise	$ 1,801,644	7.6%	$1,674,390	7.2%	1,561,866
Travel	573,188	11.4	514,531	9.1	471,446
Total	2,374,832	8.5	2,188,921	7.7	2,033,312
Dealer Incentives					
Merchandise	1,078,548	−1.1	1,090,544	5.4	1,034,518
Travel	629,817	14.1	551,987	6.7	517,367
Total	1,708,365	4.0	1,642,531	5.8	1,551,885
Merchandise Incentives					
Total	2,880,192	4.2	2,764,934	6.5	2,596,384
Travel Incentives					
Total	1,203,005	12.8	1,066,518	7.9	988,813
Trade Incentives					
Total	4,083,197	6.6	3,831,452	6.9	3,585,197
Consumer Premiums					
Self-Liquidators	957,162	14.3	853,160	7.9	790,693
Free Mail-Ins	428,928	18.4	362,270	7.5	337,105
Direct Premiums	761,895	8.9	699,628	4.0	672,977
Factory-Packs	432,745	15.1	375,973	5.2	357,434
Coupon Plan	318,993	11.5	286,092	6.9	267,595
Sweepstakes, Contests	169,531	6.0	159,935	10.9	144,250
Total	3,069,254	12.1	2,737,058	6.5	2,570,054
Trading Stamps	525,000	8.7	483,000	5.5	458,000
Other Retail	1,579,000	10.4	1,430,000	11.3	1,285,000
Business Gifts	957,000	8.8	880,000	18.0	746,000
TOTAL INCENTIVE EXPENDITURE	$10,213,451	9.1%	$9,361,510	8.3%	8,644,251

(All figures in thousands—000 omitted)

Consumer promotion led the growth in 1981/82, posting a gain of 12.1%. Trade incentives grew just 6.6%, held down by slow performance in some key industries.

gesse very close to the billion-dollar mark—$957,000,000.

Use of the direct premium has been depressed somewhat for three years by the Depository Institutions Deregulation Committee. Banks and savings & loan associations had accounted for close to a quarter of all direct-premium expenditures in some recent years. Early in 1980, the DIDC dampened the promotional ardor of financial institutions by proposing a total ban on premiums.

Near year's end, when the threat evaporated, it had already done its damage for that year and a good part of '81. This contributed a good measure to the low 4 percent growth in direct premiums last year—but that record was better than the previous forecast, which had seen a drop of more than 5 percent. Yet a strong recovery was indicated for this year. However, the revised forecast for 1982 shows only an 8.9 percent increase—possibly a product of the financial community's new ploy of offering a $20 bill as a deposit incentive, often with an afterthought offering "... or a gift." Experience indicates that when the premium is emphasized and merchandised, it will outpull the cash—but the method of presentation is critical, and it appears many bankers are prone to take the easy road of giving away money, rather than build a creative promotion that uses the $20 to buy an incentive of greater value.

Financial institutions kept up their total incentive use—with an 8.2 percent increase—last year, largely through an advance of 15 percent in use of sales incentives, while their consumer offers were lagging behind.

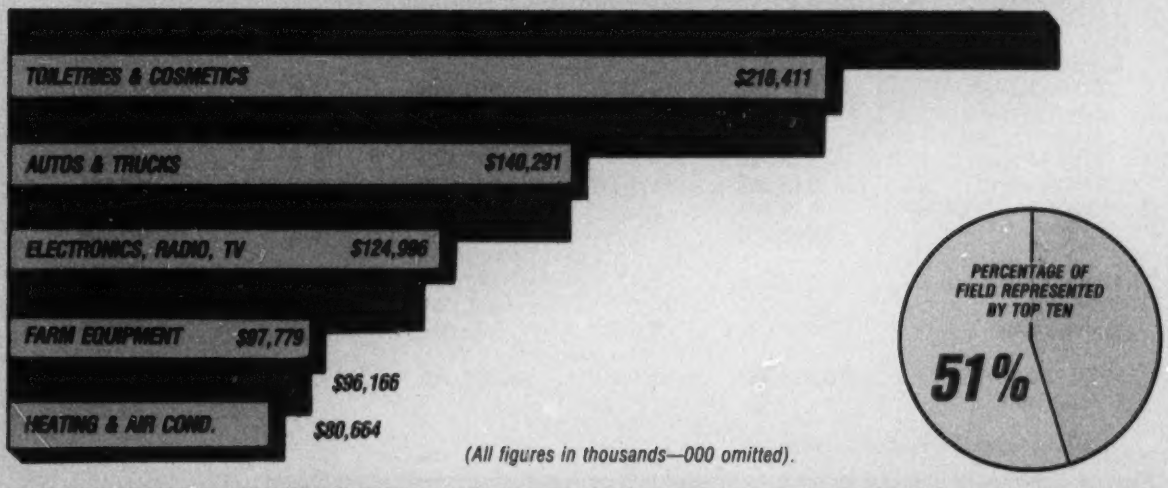
Among the industries charted by IM's survey, three reported a decline in incentive usage last year, and three others were virtually static.

Automobiles & Trucks chalked up a drop in incentive activity at 1.7 percent below the 1980 level, to the surprise of no one. Public Utilities also dropped in promotional activity last year, by 1.4 percent. And Petroleum Products proved the largest loser, down 5.3 percent for the year. On the borderline were Apparel, with a mere 0.1 percent rise; Farm Equipment, up only 1.3 percent over 1980; and Feed, Fertilizer and Farm Supplies advancing by 1.5 percent.

Biggest growth—11 percent or more—came in six areas: Toiletries, up 12.3 percent; Insurance, 11.9 percent; Housewares & Home Furnishings and Office Equipment, both up 11.6 percent; Paints & Varnishes, 11.3 percent; and Beer, Ale & Soft Drinks, up 11 percent.

Looking at the overall picture of users, we come to what has been listed in previous survey reports as the Hundred-Million-

TOP TEN MERCHANDISE INCENTIVE USERS (1981)



(All figures in thousands—000 omitted).

aire's Club. When the list exceeded 50 percent of all the industries reported two years ago, we knew the exclusivity had been lost to inflation. To point out the largest users this year, we are going to a "200-Millionaire's Club." Doubling the ante has reduced the list to eight industry groups, with 1981 volume usage as follows:

Retail Grocers	$970,000,000
Food Products	$907,565,000
Toiletries	$490,145,000
Auto Parts, Accessories, Tires	$426,774,000
Insurance	$318,560,000
Electronics, Radio, TV	$261,700,000
Automobiles & Trucks	$234,586,000
Banks, Savings & Loan	$217,254,000

The incentive spending trend, in terms of individual companies, has changed little in the past year. In the 1981 survey, 52 percent of respondents said they spent more in 1980 than the year before; this year's survey elicited that answer from 53 percent of all companies—while only 9 percent said they reduced spending and the other 38 percent stayed with their previous-year budgets.

However, only 49 percent said they are spending more this year, while 15 percent are reducing budgets and 36 percent standing pat. And, looking ahead to 1983 promotional plans, an even smaller group—36 percent—said they will enlarge their expenditures next year; 26 percent plan cutbacks and 38 percent will maintain present spending patterns.

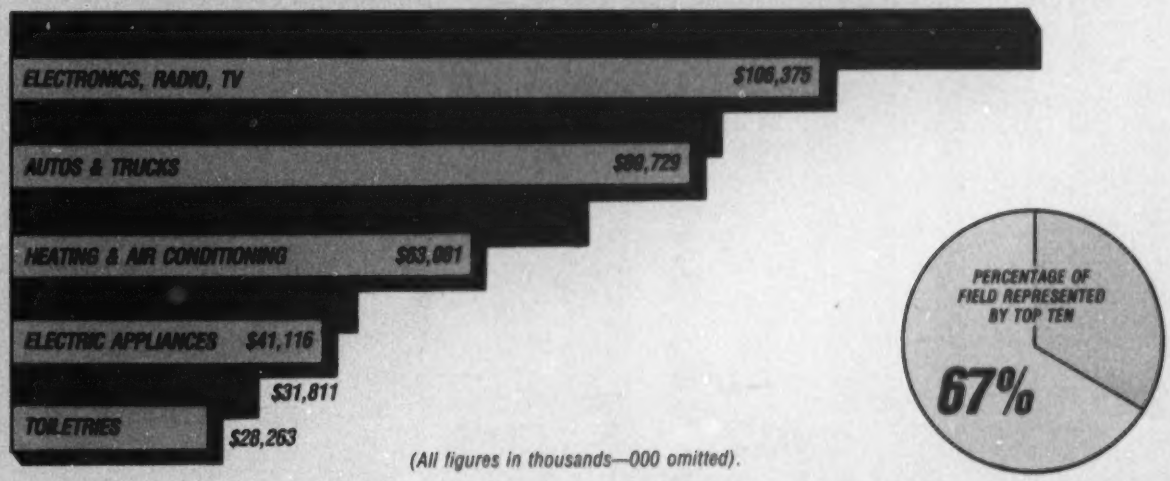
This indicated tendency to hold back on promotional costs this year and next extends to all incentive techniques reported in the survey. The largest group planning increases this year is the users of factory-packs—61 percent of whom expect to spend more for on-packs, in-packs or container premiums before the year ends, as compared with their usage last year. But only 46 percent of them stated they would make another increase in that budget of 1983.

Preliminary data suggests 1983 will show an overall growth rate of about 11%—not quite up to 1980, but substantially better than the last 2 years.

The 1982 Census Survey included a new entry in the volume-of-usage reports—"Productivity & Non-Sales Incentives." The resulting information has not been included in the volume reports, because of the lack of comparability at this time with previous survey data. It has not yet been determined to what extent these user reports may have been subtracted from figures which previously would have been reported elsewhere in the survey.

It is likely, to a degree, that some of these expenditures are items that would previously have been listed under sales incentives or business gifts. To that extent, they may have distorted the totals downward. The

TOP TEN INCENTIVE TRAVEL USERS (1981)



(All figures in thousands—000 omitted).

Although the unit cost of awards has increased, these users find the bottom line—the percentage of incremental sales spent for the program—is holding up well.

total of such usage in this survey comes to $165,258,000. These amounts cover awards given to employees for longevity of employment, safety, productivity, cost-control, suggestions, quality control, attendance, referrals and so on. One-third of all respondents in the study entered expenditures in this category.

Companies of all sizes have programs for this type of employee recognition. Budgets tend to be on the small side—from $100 to $280,000 in a group surveyed last spring by IM, but most under $10,000. The average of 156 companies in the earlier survey was $29,370.

Interest in this area of merchandise and travel usage grew out of liberalized Internal Revenue Service regulations, permitting an average award deduction up to $400 (instead of $100 as in the past) and an individual-award ceiling of $1600, so long as the average is maintained. Such awards must be part of a formalized program.

The IRS, in a ruling some months ago, moved to thwart Congress' purpose in the tax-law change, by finding that the awards are taxable income to the recipient; the sponsors of the legislation had clearly intended that the awards be deductible to the employer and tax-exempt to the recipient. A technical correction is a good possibility. If it comes, it will doubtless bring an increase in this type of award. After full definition, these awards will be included in future IM Census reports.

Mail-in promotions shape up as the major gainers in 1981 and 1982. These users anticipate spending 14.3% more on self-liquidators this year, and 18.4% more on free promotions.

If these awards had been added to the Census data for 1981, they would have swelled the total field to $9,526,768,000—10.2 percent above the 1980 reported expenditures. For comparison, the awards reported represent slightly more money spent than was invested in sweepstakes & contests last year.

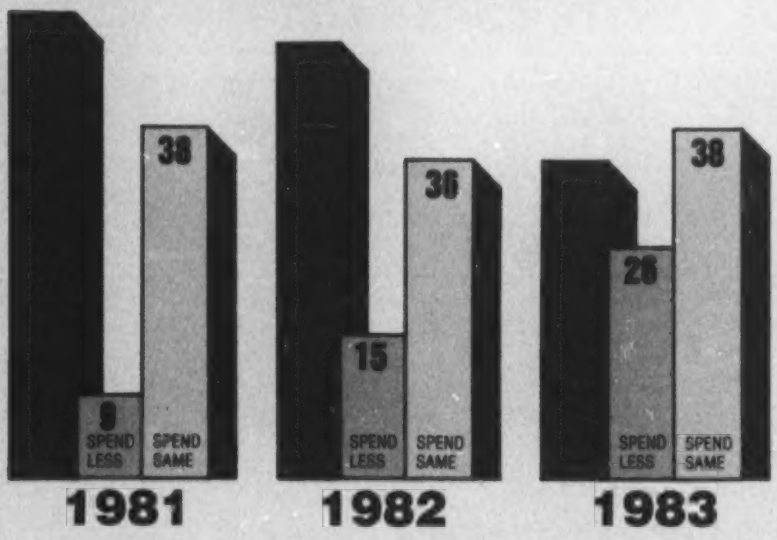
mong more conventional parts of the incentive mix, the outlook is guarded for the immediate period, but there are signs of increased productivity ahead in 1983. Preliminary review of the survey data suggests an incentive growth rate exceeding 11 percent—not quite up to the 1980 pace, but substantially better than these two years of '81 and '82.

According to the users' reports, 1983 is probably going to continue to show a greater emphasis on consumer promotion—perhaps at a 13 percent or higher increase rate. At the same time, sales incentives may come close to the overall 11 percent level, while dealer promotion can be expected to lag somewhat—possibly as low as a 7 percent expansion of activity.

Business gifts, which burst the seams with an 18 percent growth last year, then settled back to an estimated 8.8 percent

LOOKING AHEAD . . .

"NEXT YEAR, WHAT ARE YOUR INCENTIVE PLANS?"



ASKED ABOUT . . .

for 1982, should move up again next year, the users tell us—not to match the '81 explosion, but somewhere in between.

In the two trade categories, it appears merchandise will gain the upper hand again, after two years in which travel programs moved ahead more rapidly. For sales force incentives, the users tell us merchandise efforts will expand at about twice the rate of travel growth in 1983. On the dealer side, the difference is much smaller, but merchandise will probably have the edge.

Among consumer promotions, direct premiums will be likely to regain their ascendency—with a comeback for financial incentive programs, and both self-liquidators and free mail-in offers should prosper.

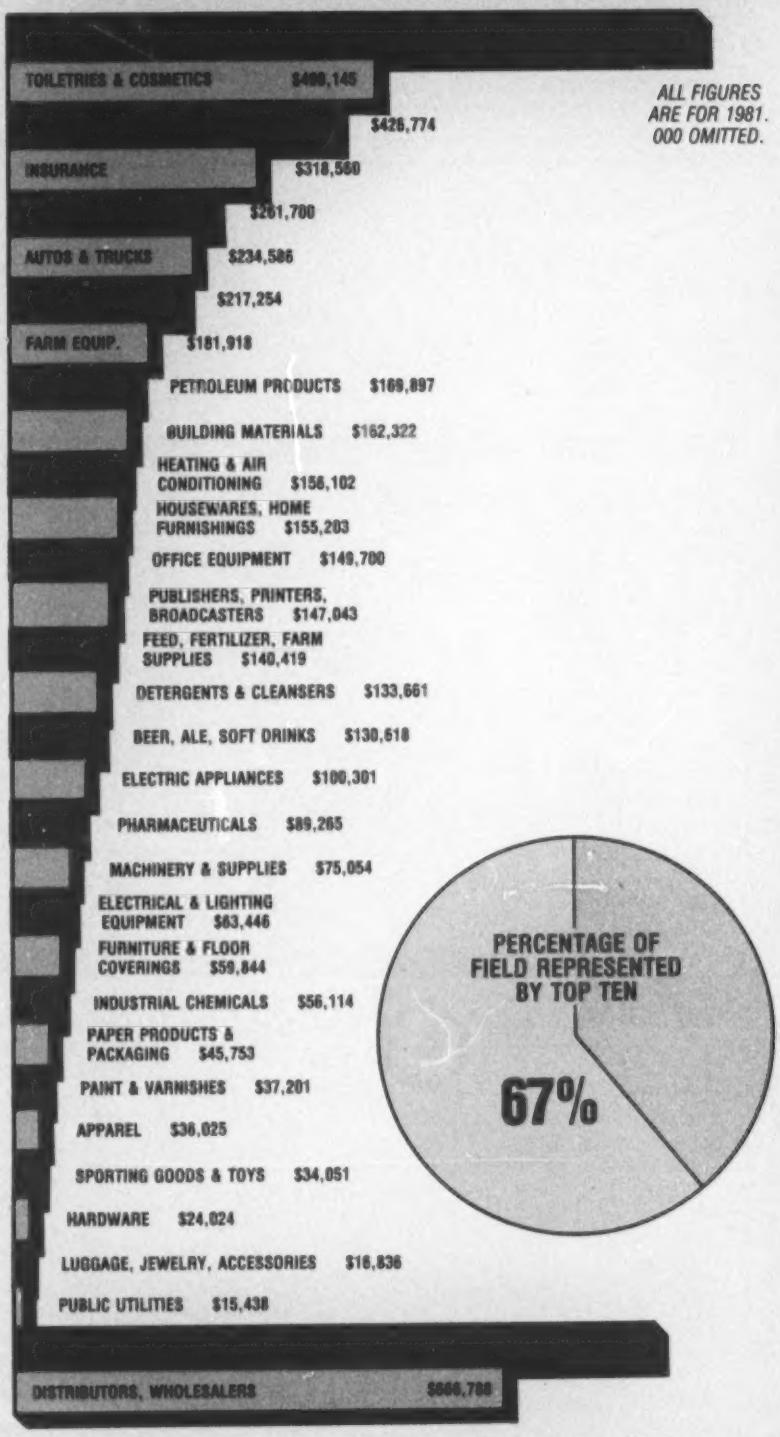
The 1983 estimates are not yet complete, and these are suppositions rather than facts. But the outlook for a return to more healthy growth is good.

If something—Reaganomics, or inertia, or something else—can turn the economy around before 1983 is too far gone, we may see a greater expansion of incentive usage than the guesses stated here imply.

But let us put to rest the theory that incentives are "recession-proof." Incentive promotion lags behind the rest of the economy in feeling the effects of recession, as a historical rule. But we are not immune. If business is down, incentives—sooner or later—are going to be down. They can do a vital job in the early stages of the downturn, helping many users stave off the effects of stagnation in the economy. But they will not postpone for long the inevitable, if business is sick. They simply help users put off the inevitable a little longer.

Incentives are, in the final accounting, a tool for making good times better. When the good times come, the experience of our surveyed users says they will do just that—with great effectiveness. ■

INCENTIVE USAGE BY INDUSTRY



* DOES NOT INCLUDE BUSINESS GIFT EXPENDITURES, ESTIMATED AT $926,000,000.

APPAREL: $36,025,000 UP 0.1%

	EXPENDITURES 1981	% CHANGE PRIOR YEAR	EXPENDITURES 1980	% CHANGE PRIOR YEAR
TRADE INCENTIVES				
Sales Force Incentives				
(Merchandise)	$8,668,000	+ 3.0	$8,409,000	+ 7.7
(Travel)	$2,146,000	+ 3.6	$2,071,000	+10.9
Dealer Incentives				
(Merchandise)	$6,229,000	+ 1.6	$6,125,000	+11.6
(Travel)	$ 117,000	− 3.4	$ 121,000	+18.6
CONSUMER PREMIUMS				
Self-Liquidator	$5,171,000	+ 2.7	$5,035,000	+ 7.3
Free Mail-In	$1,240,000	− 3.3	$1,281,000	+ 6.4
Coupon Plan	$ 337,000	− 6.4	$ 360,000	+15.0
Factory Pack	$4,346,000	− 7.1	$4,678,000	+15.7
Direct Premiums	$5,980,000	− 2.7	$6,142,000	+13.0
Sweepstakes	$1,791,000	+ 0.6	$1,780,000	+ 7.3

AUTO PARTS, TIRES, ACCESSORIES: $426,774,000 UP 4.5%

	EXPENDITURES 1981	% CHANGE PRIOR YEAR	EXPENDITURES 1980	% CHANGE PRIOR YEAR
TRADE INCENTIVES				
Sales Force Incentives				
(Merchandise)	$128,248,000	+ 4.7	$122,379,000	+16.8
(Travel)	$ 49,902,000	+ 7.1	$ 46,566,000	+19.4
Dealer Incentives				
(Merchandise)	$135,939,000	+ 3.9	$130,774,000	− 0.4
(Travel)	$ 42,478,000	+ 7.6	$ 39,464,000	− 0.6
CONSUMER PREMIUMS				
Self-Liquidator	$ 43,783,000	+ 4.3	$ 41,970,000	+13.3
Free Mail-In	$ 1,386,000	− 3.5	$ 1,436,000	+19.9
Coupon Plan	$ 1,498,000	+ 4.1	$ 1,438,000	+28.5
Factory Pack	$ 1,039,000	+12.6	$ 922,000	+36.5
Direct Premiums	$ 16,230,000	− 4.4	$ 16,970,000	+27.1
Sweepstakes	$ 6,271,000	− 2.1	$ 6,405,000	+11.0

AUTOMOBILES & TRUCKS: $234,586,000 DOWN 1.8%

	EXPENDITURES 1981	% CHANGE PRIOR YEAR	EXPENDITURES 1980	% CHANGE PRIOR YEAR
TRADE INCENTIVES				
Sales Force Incentives				
(Merchandise)	$101,355,000	− 1.5	$102,870,000	+17.4
(Travel)	$ 16,947,000	+ 4.4	$ 16,218,000	+20.6
Dealer Incentives				
(Merchandise)	$ 38,936,000	− 6.6	$ 41,644,000	+12.5
(Travel)	$ 72,782,000	+ 1.9	$ 71,395,000	+18.1
CONSUMER PREMIUMS				
Self-Liquidator	$ 541,000	−30.3	$ 776,000	+13.2
Free Mail-In	$ 211,000	−45.0	$ 383,000	+17.8
Coupon Plan	0	—	0	—
Factory Pack	$ 261,000	−31.9	$ 383,000	+18.5
Direct Premiums	$ 2,003,000	−35.7	$ 3,115,000	+ 7.1
Sweepstakes	$ 1,155,000	−40.0	$ 1,924,000	+16.6